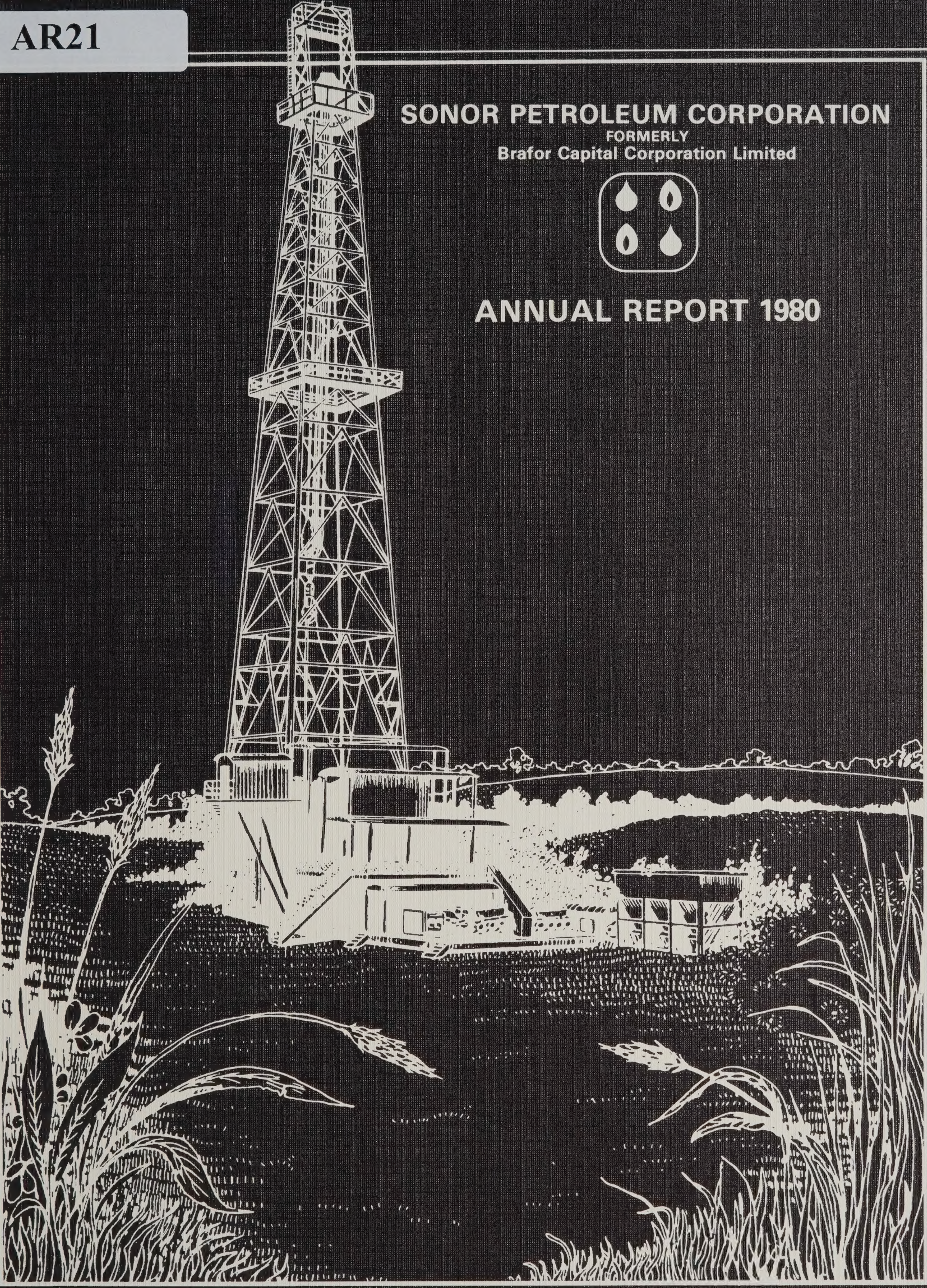
SONOR PETROLEUM CORPORATION

FORMERLY

Brafor Capital Corporation Limited

ANNUAL REPORT 1980



Officers and Directors	H.J. Mockler President & Director	Toronto
	Stephen Bartlett Secretary-Treasurer & Director	Toronto
	P.C. Casey Director	Montreal
	V.L. Cherry Director	Boston
	R.W. Coburn, P. Eng. Vice-President & Director	Tulsa
	Sandra Bird Assistant Secretary-Treasurer	Toronto
Executive Office	Suite 2314, 401 Bay Street, Toronto, Ontario M5H 2Y4	
Auditors	Leebosh, April, Curtis & Arbess Montreal, Quebec	
Transfer Agent	Guaranty Trust Company of Canada Toronto, Montreal, Calgary, Vancouver	
Banker	Canadian Imperial Bank of Commerce Toronto, Ontario	
Stock Exchange Listing	Vancouver Stock Exchange Ticker Symbol — SOR	
Counsel	Doheny, McKenzie, Grivakes, Gervais & LeMoyne Montreal	

The annual meeting of shareholders of Sonor Petroleum Corporation will be held in Toronto at 4:00 p.m. on Thursday, December 18, 1980. All shareholders are invited to attend.

Sonor Petroleum Corporation

TO THE SHAREHOLDERS

I am pleased to report that the company's problems of recent years are now largely behind us, and that Sonor Petroleum Corporation is embarked on a course which has returned your Company to a position of profitability. The results of the past year illustrate that your Company is benefiting from its policy of a prudent exploration program financed from its capital resources and cash flow.

In the fiscal year ended June 30, 1980, Sonor Petroleum Corp. participated in the drilling of 14 oil and natural gas wells in the United States and Canada. Nine of these wells were completed in the United States, and resulted in three commercial oil wells, four commercial natural gas wells, and two dry holes, for a success ratio of 78 per cent.

In Canada, of five wells drilled in Alberta and British Columbia, two are commercial oil producers and three were dry. Fortunately, our exposure per well in Canada has been much less than in the United States, with the result that the cost to the company has been minimized.

Your Company is in a healthy financial position, due in part to the exercise of 98 per cent of the warrants associated with previous equity financing.

In the year ended June 30, 1980, the first revenues of Sonor Petroleum Corporation from the sale of oil and natural gas totalled $69,093. Our exploration successes during that year and since, along with the infusion of capital which will enable your Company to optimize the benefits from our expanding land holdings, form the basis for a sustained, future cash flow.

It is the intention of management to concentrate our activities in the United States, and to deploy our resources in areas where hydrocarbons are known to exist either because of well-defined geology, previous production, or existing offset production.

Management's decision to shift Sonor's centre of operations towards the United States is based on two major considerations. The first is that world prices and ready markets exist for U.S. oil and natural gas production. The second is that Canada has become an inhospitable environment for companies in the oil and natural gas industry. Until the federal and provincial governments agree on more sensible pricing, marketing, and taxation policies, the petroleum industry in this country will continue to be in an unsettled state and as such will offer less profit potential than is the case elsewhere.

Since the end of the fiscal year, Sonor Petroleum Corporation has participated in the drilling of four additional wells in the United States — two in the Shep field in Taylor County, Texas, and two on the Airport Prospect, also in Texas. All have been completed as producing oil wells. In the Shep field, Sonor has a 25 per cent working interest (18.25% net revenue interest), while on the Airport Prospect it owns a 100% working interest (80% net revenue interest).

During the balance of the current fiscal year, we expect to participate in the drilling of up to 25 wells. The majority of these will be in the United States.

Insofar as the Canadian properties are concerned, our principal activities will be the drilling of offset locations to a successful well drilled last year at Loon Lake in northern Alberta. In the United States, there will be only one exploratory well, in Lincoln County, Oklahoma, while the balance will be development wells in Taylor County and on the Airport Prospect, both in Texas. Because most of this work will be developmental, we expect a high success ratio and a substantial increase in revenues.

To improve the efficiency of our operations in the United States, and to acquire a greater proximity to the opportunities that exist in that country, Sonor Petroleum Corporation has incorporated two wholly owned U.S. subsidiaries. Tutor Hydrocarbons Inc. will own lands and drilling licenses, while CRC Operating Corp. will be responsible for day-to-day drilling and associated operations.

TAYLOR COUNTY

Sonor Petroleum Corporation, working with three participating companies, last year acquired a one-quarter working interest in a 1,250-acre lease block in this Texas area which until shut in about two decades ago had produced 670,000 barrels of oil. Following a study of the available geological data and a review of past production history, our technical staff concluded that substantial reserves remained in the ground.

At current prices of up to $40 (U.S.) per barrel, these reserves appeared to lend themselves to economic recovery. The results of drilling so far have proved this thesis in that of the 4 wells drilled to date, 3 are producing while the fourth intersected potentially productive zones, which are currently being tested.

Reagan No. 1, producing from the Caddo lime, came on stream in April, and after an initial high rate of flow, has stabilized at 11 barrels of oil and 25,000 cubic feet of gas per day.

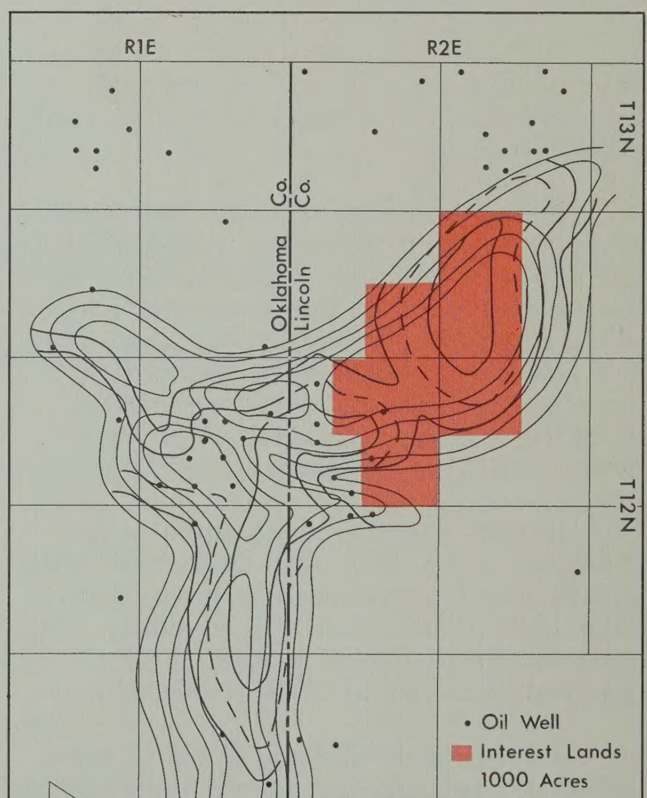
Eugene Crayton No. 1, about 1,000 feet distant from our first well, was also completed in the Caddo after testing of other zones which, while having considerable oil potential, were found to contain unmanageable amounts of water. At this writing, the Caddo is producing at 20 barrels per day. A similar quantity is expected from the Gray horizon, lying above the Caddo, and this will be treated in a few weeks.

A third location in the Shep field, the J.R. Crayton No. 1, has been drilled to the Ellenburger formation, and has identified a new structure, the Lower Fry, which zone is approximately 20 feet thick, with a porosity of up to 18 per cent, and is heavily stained with oil. The Lower Fry has not previously been found in the immediate area, but is a known prolific producer south of our leases. Both of these zones were treated but, like the Eugene Crayton, were found to contain unmanageable quantities of water. Consequently these were sealed and the well was completed in the Gray sands, which tested at more than 300 barrels of oil per day. Our engineers do not expect this rate will be sustained for a long period of time, but do feel that it could produce in the area of 100 barrels of oil per day for many months before output starts to decline. Production of this magnitude will be very significant to the company.

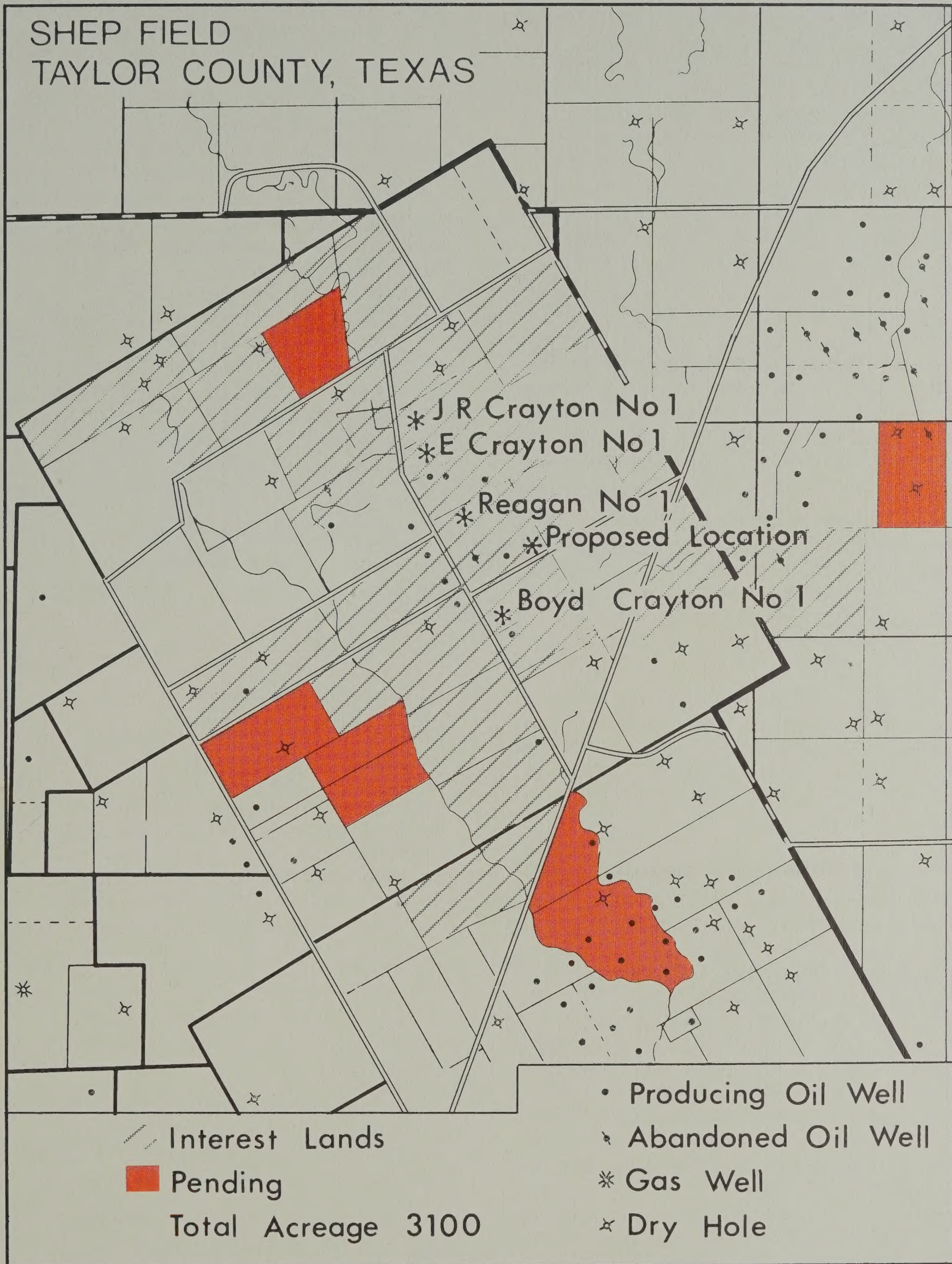
The fourth well, the Boyd Crayton No. 1 has also been drilled to the Ellenburger formation and will be tested over the coming weeks. In addition to the Ellenburger, the well intersected both the Caddo lime and the Gray sands. These zones appear to underlie our entire acreage spread, and it is our firm belief that they are productive over the total acreage. This would provide a cushion while we are exploring other major structures such as the Ellenburger, which could be highly prolific. The geology indicates that the latter formation, which is a major producing zone in the area, occurs on our lease. If it can be penetrated away and up-structure from the water line, it will yield significant quantities of oil. Since the original acquisition in Taylor County, Sonor Petroleum and its partners in the Taylor County play have acquired a further 1,700-acres contiguous to our first lease block and are negotiating the purchase of other adjoining property.

LINCOLN COUNTY

Sonor Petroleum Corporation is one of four companies which last spring each purchased a 25 per cent working interest in the 1,000-acre lease in Oklahoma, adjoining lands which formerly produced as much as 300 barrels of oil and 1,500,000 cubic feet of gas daily.



LINCOLN COUNTY, OKLAHOMA, U.S.A.


SHEP FIELD
TAYLOR COUNTY, TEXAS
J R Crayton No 1
E Crayton No 1
Reagan No 1
Proposed Location
Boyd Crayton No 1
Interest Lands
Pending
Total Acreage 3100
Producing Oil Well
Abandoned Oil Well
Gas Well
Dry Hole

The lease in which your Company has an interest contains at least six known hydrocarbon-bearing structures. Our engineers have recommended drilling in the southwest corner of this lease to test the Misener sand, the same source of production as in the adjoining lands. Drilling probably will begin before year-end.

The characteristics of our Lincoln County holdings conform with your Company's policy in that they offer good structural control and are surrounded by existing production. In fact, management believes that his lease has many of the same attributes as our Shep prospect and could be equally productive.

KAY COUNTY

Two years ago, your Company acquired eight parcels of land comprising 1,350 acres of petroleum leases in this Oklahoma county. The Kay County properties typify the low-risk ventures that promise a reasonable rate of return.

Six wells have been drilled, each to a depth of 900 feet, and four are capable of yielding commercial quantities of natural gas. Two are now linked to recently-constructed gathering facilities, which will shortly be extended to the locations of the other two commercial wells.

Sonor's Kay County investment is representative of management's modified approach which stresses the search for situations which offer an assured cash flow at minimum risk.

AIRPORT PROSPECT

This property consists of 400 acres on the southeast edge of Abilene, Texas. Management rates this acreage very highly. Through your Company's wholly-owned subsidiary, Tutor Hydrocarbons, Inc., Sonor Petroleum owns 100 per cent (80% net revenue interest) of this prospect. Our holdings on the Airport prospect promise to have very positive consequences for the profitability of Sonor. The acreage is surrounded by formerly productive lands, and has as its principal producing horizon the Flippen Lime lying at a shallow depth of 1,800 feet. Wells on this horizon can be drilled and completed in about one week at a cost of less than $50,000 on 10-acre spacings. Based on the production history of the surrounding lands, your Company's consultants estimate that each well will develop about 15,000 barrels of recoverable oil and will produce at between 10 and 20 barrels per day for many years.

Both of the wells drilled so far have been completed and are flowing at rates of 10 and 17 barrels of oil daily, thus confirming the original engineering evaluation of the prospect. It is the company's intention to immediately drill additional wells on this prospect, since by

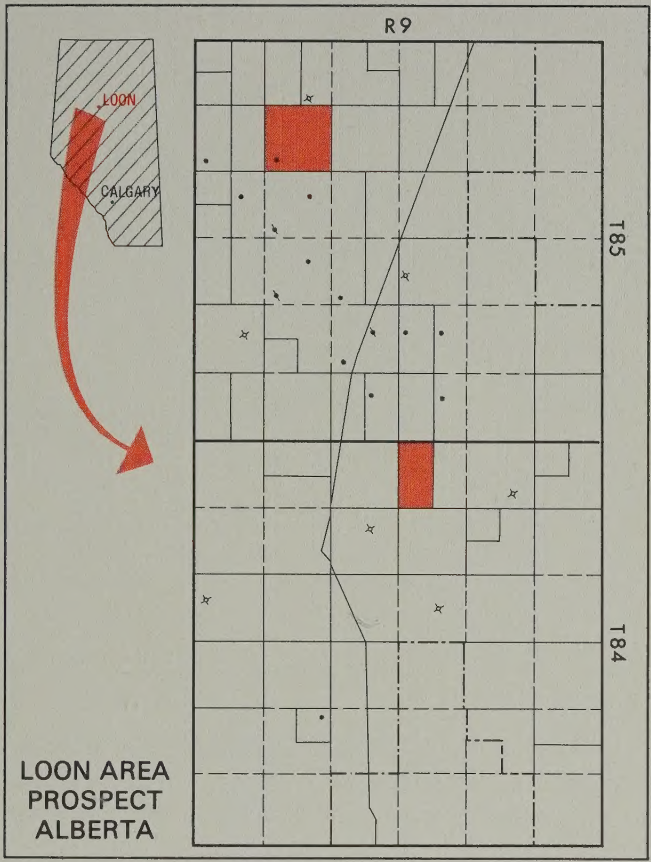
virtue of our 100 per cent ownership each new successful well will impact fully on gross revenues and cash flow. Based on a 10-acre spacing pattern, the existing acreage will enable Sonor to drill up to 40 wells, all of which are expected to be similar in productive capacity to the first two. It is apparent that if this is the case, the Airport lease could become one of the company's major assets.

CANADA

LOON LAKE

Management expects a modest but continuing cash flow as a result of its participation in the drilling of three wells in the Loon Lake region of northern Alberta.

Sonor's participation is 3.3 per cent. The first well has been completed to the Slave Point formation at a depth of 4,875 feet, and is producing at 75 barrels daily. The second is expected to be spudded shortly. Subject to the result, a third well will likely be completed before the end of the calendar year.



OTHER INTERESTS

Since the fiscal year-end, Sonor Petroleum Corporation has purchased a 25 per cent working interest in each of the Pauley Prospect in Colman County, Texas, and the Boyd Prospect, in Jones County, Texas. Both leases are approximately 220 acres in size and are surrounded by lands with a production history.

LITIGATION

Last year we disclosed that one of two legal actions against former managers of Sonor Petroleum Corporation (instituted when the company was Performance Plus, a mutual fund) was settled out of court with a net return to your Company of $150,000 (U.S.). We are pleased to be able to report that the second lawsuit also has been settled out of court for a similar amount.

SUMMARY

Since your Company's transformation a year ago from Brafor Capital Corporation Limited to Sonor Petroleum Corporation we have collected the talent and the financial resources which have allowed us to become a viable oil and gas producer.

Your Company will continue to emphasize its U.S. operations, where land and exploration costs are substantially less than in Canada, where prices are higher, where markets are readily available, and where regulation is less intrusive.

On behalf of our shareholders and directors, I wish to acknowledge the efforts of our employees, consultants, and associates which have brought your Company to its present stage of maturity.

Dated November 17, 1980.

On behalf of the directors
H.J. Mockler
President

AUDITORS' REPORT

To the Shareholders of
SONOR PETROLEUM CORPORATION
(formerly Brafor Capital Corporation Limited)

We have examined the consolidated balance sheet of SONOR PETROLEUM CORPORATION as at June 30, 1980 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied after giving retroactive effect to the change in the basis of accounting for investments referred to in Note 2 to the financial statements on a basis consistent with that of the preceding year.

Montreal, Quebec
September 25, 1980
(except for Note 9 dated November 17, 1980)

LEEBOSH, APRIL, CURTIS & ARBESS
Chartered Accountants
Comptables Agrees

Sonor Petroleum Corporation

(formerly Brafor Capital Corporation Limited)

CONSOLIDATED BALANCE SHEET
As at June 30, 1980

ASSETS

	1980	1979
CURRENT		
Cash and bank deposit receipts	$1,127,042	$ 808,303
Funds held in escrow	14,729	—
Accounts receivable (Note 9a)	58,079	3,265
Due from affiliated companies	171,962	16,538
Loan receivable — shareholder (Note 9b)	42,000	—
Income taxes recoverable	872	2,326
	1,414,684	830,432
PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)	1,185,421	440,155
INVESTMENTS, at cost (market — $1,289,363; 1979 — $780,003)	633,815	570,003
	$3,233,920	$1,840,590

LIABILITIES

	1980	1979
CURRENT		
Accounts payable	$ 71,178	$ 52,498
Due to affiliated company	41,579	33,595
Dividends payable (Note 6c)	174,138	—
	286,895	86,093

SHAREHOLDERS' EQUITY

	1980	1979
CAPITAL STOCK (Note 4)		
Authorized:		
Unlimited Convertible Class 'A' shares, no par value		
Unlimited Common shares, no par value		
Issued:		
2,485,652 Common shares (1979 — 1,742,352)	3,199,674	1,898,899
CONTRIBUTED SURPLUS	306,470	306,470
DEFICIT	(559,119)	(450,872)
	2,947,025	1,754,497
	$3,233,920	$1,840,590

APPROVED ON BEHALF OF THE BOARD:

H.J. MOCKLER, DIRECTOR

S. BARTLETT, DIRECTOR

Sonor Petroleum Corporation

(formerly Brafor Capital Corporation Limited)

Sonor

Paul

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 1980

	1980	1979
INCOME		
Oil and gas production	$ 69,093	$ —
Investment income	76,309	44,413
	145,402	44,413
EXPENSES		
Oil and gas operations	27,630	—
Management fees	54,000	22,000
Legal, audit and consulting fees	61,829	64,798
Salaries	5,176	16,343
General administration	49,643	38,122
Loss on sale of investments	659	—
Depletion and depreciation	54,712	—
	253,649	141,263
	(108,247)	(96,850)
Final adjustment on disposal of investment in subsidiary company	—	(49,306)
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(108,247)	(146,156)
Recovery of income taxes	—	1,016
LOSS BEFORE EXTRAORDINARY ITEM	(108,247)	(145,140)
Settlement of litigation (Note 6)	174,138	—
NET INCOME (LOSS)	$ 65,891	$ (145,140)
Basic earnings per share		
Based on weighted average number of common shares outstanding:		
Loss before extraordinary item	$ (.054)	$ (.113)
Extraordinary item	.087	—
NET INCOME (LOSS)	$ .033	$ (.113)

Sonor Petroleum Corporation

(formerly Brafor Capital Corporation Limited)

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended June 30, 1980

	1980	1979
Deficit — beginning of year		
As previously reported	$ 240,872	$ 49,083
Restatement due to retroactive change in the application of accounting principle (Note 2)	210,000	151,649
As restated	450,872	200,732
Net (income) loss	(65,891)	145,140
	384,981	345,872
Dividends (Note 6c)	174,138	—
Expenses relating to share issue	—	105,000
DEFICIT — END OF YEAR	$ 559,119	$ 450,872

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended June 30, 1980

	1980	1979
SOURCE OF WORKING CAPITAL		
Issue of common shares from treasury	$ —	$ 30,000
Proceeds from share issue	—	750,000
Proceeds on sale of investments	2,051,439	—
Settlement of litigation	174,138	—
Proceeds from exercise of warrants	1,300,775	—
	3,526,352	780,000
USE OF WORKING CAPITAL		
Operations		
Loss before extraordinary items	108,247	145,140
Items not affecting working capital		
Depletion and depreciation	(54,712)	—
Loss on disposal of investments	(659)	—
	52,876	145,140
Dividends	174,138	—
Expenses relating to share issue	—	105,000
Purchase of investments	2,115,910	—
Purchase of petroleum and natural gas properties	799,978	310,155
	3,142,902	560,295
Increase in working capital	383,450	219,705
Working capital — beginning of year	744,339	524,634
WORKING CAPITAL — END OF YEAR	$1,127,789	$ 744,339

Sonor Petroleum Corporation

(formerly Brafor Capital Corporation Limited)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Tutor Hydrocarbons Inc., a U.S. company.

b) Foreign Exchange

The accounts of the subsidiary operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and current liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses (excluding depletion and depreciation, which are converted at the rate of exchange applicable to the related asset).

c) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of such properties are capitalized. Such costs include land and lease acquisition costs, geological and geophysical expenses, carrying charges and costs of drilling. If a project is developed, the related accumulated costs are amortized against future income from the project. If a project is discontinued, the accumulated costs are written off to income in the year the project is discontinued.

2. RETROACTIVE CHANGE IN THE APPLICATION OF ACCOUNTING PRINCIPLE

During the year, the company changed its basis of accounting for investments to the cost method with retroactive effect from the beginning of the preceding year. Previously, the company was classified as an investment corporation and accordingly, the investments were carried at market value.

This has resulted in a retroactive adjustment of $210,000 representing the cumulative amount by which the deficit as at June 30, 1979 has been increased. Of the $210,000, $58,351 is applicable to 1979 and has increased the net loss for that year. The remaining $151,649 is applicable to prior years and has been charged to the deficit at July 1, 1978.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1980	1979
Oil and gas properties		
Canada	$ 391,001	$244,115
U.S.A.	849,712	196,040
	1,240,713	440,155
Accumulated depletion and depreciation	55,292	—
	$1,185,421	$440,155

Oil and gas interests represent the company's portion of participation in the exploration for and development of oil and gas properties.

4. CAPITAL STOCK

The convertible Class 'A' shares, without nominal or par value, have five votes each. These shares are convertible at any time into fully paid common shares on the basis of one common share for each convertible Class 'A' share. In all other respects, these Class 'A' shares rank pari passu with the existing common shares. No convertible Class 'A' shares have been issued.

During the year, 743,300 common share warrants were exercised at $1.75 per share, thereby providing the company with additional capital of $1,300,775.

A stock option plan has been established for an officer entitling him to acquire 55,000 common shares at $0.85 per share, exercisable until June 23, 1983.

5. CONTINUANCE

Formally incorporated under the Canada Corporations Act, the company elected to be continued under Section 181 of the Canada Business Corporations Act from December 12, 1979.

Par value shares are deemed no par value under the Canada Business Corporations Act, without change in stated value. The authorized share capital of the company was formerly described as composed of 650,000 convertible Class 'A' shares of no par value and 5,000,000 common shares of no par value. There were 1,742,352 common shares issued as at June 30, 1979.

6. LITIGATION

a) During the year, the company received from a defendant $174,138, net of legal fees, which represented a final settlement of lengthy litigation. Subsequent to year-end, a settlement agreement in principle was reached with another defendant calling for total payment of $150,000 U.S., net of legal fees, over a four year period. This amount will be reflected in the accounts of the company as income when it is actually received.

b) On May 19, 1978, it was resolved by the Board of Directors that a scrip dividend be issued to holders of 1,112,352 outstanding common shares of the company as of that date; this scrip dividend was to represent the total net amount of proceeds if any resulting from certain lawsuits.

c) As a consequence of the settlement proceeds received to date, referred to in Note 6a, provision has been made for the dividends payable.

7. LOSSES CARRIED FORWARD

At June 30, 1980, the company had accumulated losses for income tax purposes of approximately $134,000 available as a carry-forward against future taxable income. The benefit of such losses will expire in 1985. Such benefits will be recognized in the accounts only as they are realized.

In addition, the company has allowable capital losses of approximately $265,000 which may be applied against taxable capital gains of future years and which may be carried forward indefinitely.

8. RELATED PARTY TRANSACTIONS

Substantially all of the company's exploration and production activities are conducted jointly with affiliated companies and the accounts reflect only the company's proportionate interest in such activities.

The company paid monthly management fees of $5,500 to a company owned by the President and members of his family. This agreement was terminated during the year.

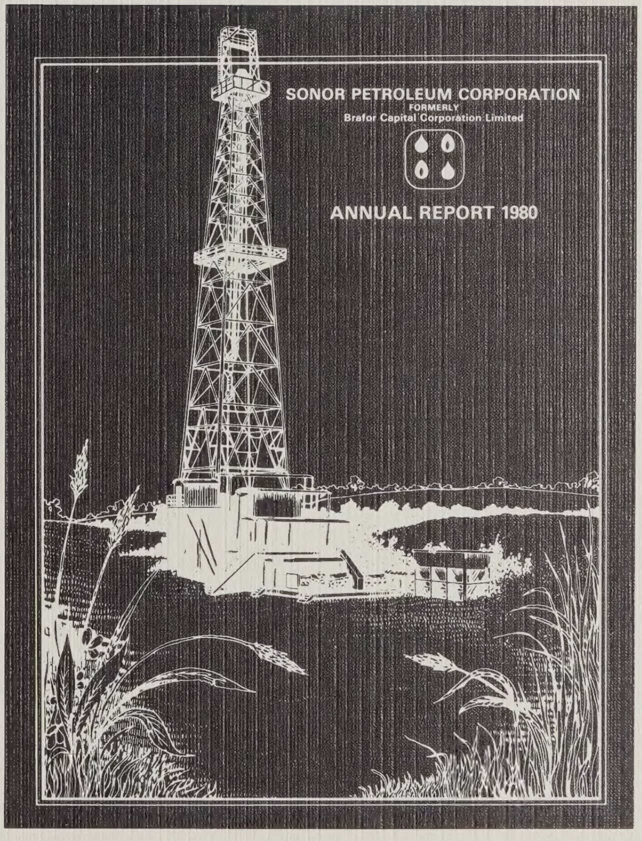
Consulting fees approximating $43,000 U.S. were paid to a director of the company and a company controlled by him with respect to the acquisition and supervision of oil and gas properties. In addition, amounts paid approximating $9,000 U.S. were charged to expense.

9. SUBSEQUENT EVENTS

a) Included in accounts receivable is an amount of $15,479 due from a company controlled by a director of the company. This amount represents consulting fees paid in advance by the company. As at November 17, 1980 no amount is owing on account of these prepaid services.

b) On November 17, 1980 the shareholder has repaid the loan receivable in full.

NOTES



ACKNOWLEDGMENT

The cover of this year's Annual Report is a reproduction of a "meteograph" (an etching using black anodized aluminum) drawn by Mr. Ron Mitchell of Oklahoma City, Oklahoma. Mr. Mitchell is a well known artist specializing in this type of etching depicting various scenes associated with the oil industry. We are grateful for his permission to allow the Company to use this particular scene as we believe it catches the exploration excitement connected with the petroleum business.